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IPO Note – Nuvoco Vistas Corporation Limited

08-August-2021

RETAIL RESEARCH

Issue Snapshot:
Issue Open: Aug 09 – Aug 11 2021

Price Band: Rs. 560 – 570

*Issue Size: 87,719,298 eq shares
(Fresh issue of 1500 cr + offer for sale of 3500 cr)

*Issue Size: Rs.4912.3 – 5000.0 cr

Reservation for:

QIB	Upto	50% eq sh
Non Institutional	atleast	15% eq sh
Retail	Upto	35% eq sh

Face Value: Rs 10

Book value: Rs 232.43 (Mar 31, 2021)

Bid size: - 26 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 330.84 cr
*Post issue Equity:	Rs. 357.16 cr

Listing: BSE & NSE

Book Running Lead Managers: ICICI Securities Ltd, Axis Capital Ltd, HSBC Securities and Capital Markets (India) Private Ltd, J.P. Morgan India Private Ltd, SBI Capital Markets Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	95.2	71.0
Public	4.8	29.0
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Nuvoco Vista Corporation Ltd (NVCL) is the fifth largest cement company in India and the largest cement company in East India in terms of capacity. As of December 31, 2020, its cement production capacity constituted approximately 4.2% of total cement capacity in India, 17% of total cement capacity in East India and 5% of total cement capacity in North India, and it is one of the leading ready-mix concrete manufacturers in India. NVCL is promoted by Dr. Karsanbhai K. Patel, who is a successful entrepreneur and is associated with the Nirma Group.

As of March 31, 2021, NVCL has 11 Cement Plants (eight in East India and three in North India). Its Cement Plants are in the states of West Bengal, Bihar, Odisha, Chhattisgarh and Jharkhand in East India and Rajasthan and Haryana in North India, while its RMX Plants are located across India. As of March 31, 2021, its Cement Plants have an installed capacity of 22.32 MMTPA. Three of its plants in East India are integrated units and five plants are grinding units. Two of its plants in North India are integrated units and the third is a blending unit. The Company has waste heat recovery systems at all its integrated plants with a total capacity of 44.7 MW, solar power plants with a total capacity of 1.5 MW and captive power plants with generation capacity of 105 MW. As of March 31, 2021, NVCL operates 49 RMX Plants which are in key states in India, enhancing its Pan-India presence.

Cement Plants of the NVCL are strategically located with road and rail connectivity to its key markets of East India and North India. Its plants are also located in proximity to its limestone reserves and other raw materials, such as slag and fly ash. It transports clinker from integrated Cement Plants to its grinding units via rail and road. It has captive railway sidings at six of its plants, these give a significant competitive advantage in transporting raw materials and finished products from these plants. NVCL is the fastest growing cement company in terms of capacity addition on percentage terms with installed capacity doubling over the last five years post the acquisition of NU Vista.

NVCL distribute its products through the trade segment, which mainly caters to individual home buyers ("Trade Segment"), and the non-trade segment, which is mainly via direct sales to institutional and bulk buyers ("Nontrade Segment"). Its focus is on the Trade Segment, where its distribution channels are a mix of wholesale and retail dealers and a sub-dealer network. It has developed strong relationships with its channel partners over the years and built a loyal base of customers across its operational markets with the aim to achieve both its customers' and its own growth objectives. NVCL operates through a range of distribution channels and direct sales to improve its reach to customers. As at March 31, 2021, it has 244 CFAs (162 in East India and 82 in North India) and 16,076 dealers in India (10,091 in East India and 5,985 in North India). Its institutional and corporate clients undertake bulk and large volume purchases. In Fiscal 2021, based on its proforma financials, its sales from the Trade Segment of the market constituted 73% (East India - 76%, North India - 56%, Central India - 79%) of total cement sales volume, whilst sales from the Non-Trade Segment constituted 27% (East India - 24%, North India - 44% and Central India - 21%) of total cement sales volume. It offers a range of over 50 products across cement, RMX and modern building materials.

Objects of Issue:

The Offer comprises a Fresh Issue by NVCL and an Offer for Sale by the Promoter Selling Shareholder.

Offer for Sale

The Promoter Selling Shareholder will be entitled to the proceeds of the Offer for Sale after deducting its proportion of Offer related expenses and relevant taxes thereon. The Company will not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

Fresh Issue

NVCL proposes to utilise the Net Proceeds towards funding of the following objects:

- repayment/prepayment/redemption, in full or part, of certain borrowings availed of by NVCL (Rs.13500 mn); and
- General corporate purposes.

In addition to the aforementioned Objects, NVCL expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges, including among other things, enhancement of the Company's brand name among existing and potential customers and creation of a public market for the Equity Shares in India.

Competitive Strengths

Largest cement manufacturing company in East India in terms of total capacity: NVCL is the largest cement manufacturer in East India and the fifth largest cement manufacturer in India in terms of capacity. It has a capacity share of approximately 17% in terms of consolidated capacity in East India. It also has a capacity share of approximately 4.7% in terms of consolidated capacity in North India. With a consolidated capacity of 22.32 MMTPA, it owns 4.2% of the industry's installed capacity in India as of December 2020. The location of its plants allows to maintain its leadership position in East India while growing its business in North India. East India is the fastest growing cement markets in India. In addition, its Cement Plants in Chhattisgarh and Rajasthan are ideally placed to serve the adjacent markets of Uttar Pradesh and Madhya Pradesh in Central India and Maharashtra in West India respectively. NVCL has an extensive portfolio of cement, RMX and modern building materials to cater to the needs of its customers. It is a trusted supplier for a diverse base of customers as has modern manufacturing facilities and strong research and development capabilities, enabling it to produce quality and reliable products, provide quality after-sales services, and maintain a reputable brand name and successful track record. It also has steady Non-Trade Segment sales and revenues which allow to secure volume-based sales orders and improved margins. It sold 17.26 million MT of cement in India in Fiscal 2021 (based on its Proforma Financial Statements). Additionally, it is one of the leading industry players in the RMX industry. Its position in the RMX industry allows to access key markets in India, particularly in areas where its cement products are not readily available.

Market-leading brands that establish and enhance leadership as a building materials company with strong brand recognition: NVCL's established record of strong performance and reputation for quality products in cement, RMX and modern building materials has helped to build reputable brands in the building materials industry in India. It has a comprehensive suite of brands across all these segments. This brands have differentiated characteristics and qualities which fulfill diverse customer needs and thereby attract new customers as well as retaining and increasing demand from existing customers. Its cement portfolio includes different types of cement including Ordinary Portland Cement (OPC), Portland Slag Cement (PSC), Portland Pozzolana Cement (PPC) and Portland Composite Cement (PCC). As part of its cement portfolio, it has brands with multiple products under each brand such as "Concreto", "Duraguard", "Premium Slag Cement", "Nirmax", "Double Bull", "Infracem" and "Procem". Each brand has product/brand variants that provide added value through different features. Its brands in RMX portfolio includes the "Concreto", "Instamix", "Artiste" and "X-Con" product ranges. Modern Building Material products are marketed and sold under the "Zero M" and "Instamix" brands. These products and brands are an important value-added business for the Company. Customer demand for these products will increase over time, allowing NVCL to leverage its market position for these products.

Strategically located cement production facilities that are in close proximity to raw materials and key markets: NVCL's Cement Plants are located at various strategic locations in East and North India. These locations allow it to effectively sell and market its products in East and North India as well as access to select key markets in Central India. It has three integrated units and five grinding units located in East India, and two integrated units and one blending unit located in North India. It is also in the process of enhancing its cement capacity in its existing grinding units in Jojobera Cement Plant and Bhabua Cement Plant in East India. All NVCL's units are located within close proximity to the key raw materials required to produce cement, such as limestone, slag and fly ash. Its units are also connected by road and/or rail networks that allow for the easy flow of raw materials and dispatch of finished products to its key markets. Connectivity to raw materials and to its customers allows it to manufacture and sell its cement products to customers in a cost-efficient manner. Its presence in this growth market enables it to benefit from their increasing demands and ensures that its plants have high utilisation rates and are ready to meet the demands of its customers.

Extensive sales, marketing and distribution network with diversified product portfolio: NVCL has strong sales, marketing and distribution capabilities in East and North India, and strategic access to some key markets in Central India. This distribution network allows it to effectively target and drive sales within the Trade Segment. As at March 31, 2021, it has 244 CFAs (162 in East India and 82 in North India) and 16,076 dealers in India (10,091 in East India and 5,985 in North India). Its extensive network of warehouses, logistics partners and dealers in East and North India gives a competitive advantage in its operating regions. It is increasing this network as it ramps up volumes and market penetration. Its manufacturing unit locations and distribution network enable it to service its markets efficiently, increase market share across East, Central and North India, and enhance brand presence.

Growth in business and operations from acquisitions and, in particular, the recently concluded acquisition of NU Vista: NVCL has grown its manufacturing capacity, sales and distribution network, and market position through acquisitions over time. It has a successful track record of executing acquisitions that aid in the growth of its business based on a careful selection of potential assets and the integration of these assets with its business. It has recently successfully completed the acquisition of NU Vista, the cement business of Emami Group.

Strong research and development and technological capabilities: NVCL place a strong focus on innovation, with an emphasis on developing a comprehensive product range to meet the requirements of its customers, address the gaps in the market and improve its profitability. The Company has set up the CDIC, its innovation centre located in Mumbai. Through CDIC, it can and have developed new products that address market needs. Some of its innovative products include ready-to-use wet micro concrete for structural strengthening and retrofitting, high-strength, high-density and lightweight concrete (as compared to regular concrete), wet mix cement mortar in bags, quick-setting OPC, fast-bonding adhesive for tile fixing and high-quality wall putty for interior and exterior walls. Its CDIC has developed a range of innovative products. In India, it has filed patent applications for four of its products, of which one has already been granted. NVCL has been successful in diversifying its products by leveraging innovation and technological capabilities. It actively benchmarks its products against regional and international competitors to ensure that its products are innovative and meet market and technology trends.

Experienced Individual Promoter and professional management team: NVCL has seen strong growth under the vision, leadership and guidance of the Individual Promoter, Dr. Karsanbhai K. Patel, who is a successful entrepreneur committed to becoming a key player in the high-growth building materials industry. The Individual Promoter is associated with the “Nirma Group”, a diversified conglomerate that manufactures products ranging from chemicals to detergents, soaps, healthcare and real estate. The Individual Promoter has played a key role in developing business and has benefited from his industry expertise, vision and leadership. It also haves a well-qualified senior management team with experience across all functions of the building materials industry.

Business Strategy:

Consolidate and grow market share in East, North and Central India: NVCL is the largest cement company in terms of manufacturing capacity in East India. This, coupled with its extensive distribution network in East India, provides with an opportunity to further consolidate and enhance its position in this key market. In Fiscal 2020, East India had GDP growth of 7.0% while North India had GDP growth of 6.2%.GDP growth for all of India is projected at 11.0% by Fiscal 2022. The Company intends to leverage its existing manufacturing facilities and distribution network to capitalise on the expected demand for cement products from its customers.

Increase portfolio of premium products and profit margins: NVCL will continue to consolidate its market position in the building materials industry through the following initiatives:

- focus on enhancing the sales and penetration of its existing brands with particularly premium brands such as “Concreto”;
- identify gaps in the industry and in portfolio and introduce new products, particularly targeting the premium segments;
- extend the range of modern building materials to provide a comprehensive product/solution set for its distribution channels and based on customer demands; and
- focus on enhancing the range of value-added products in the RMX business.
- NVCL intends to continue its focus on research and development to enhance the quality and range of its existing products and develop new products capable of achieving these objectives.

Focus on operational efficiencies and synergies to improve returns, whilst expanding manufacturing capabilities: Offering quality products is a key aspect of maintaining and expanding market position. To that end, NVCL has adopted several initiatives designed to improve its cost efficiency. The Company has installed waste heat recovery systems across all integrated Cement Plants. It’s Arasmeta Cement Plant, Sonadih Cement Plant, Risda Cement Plant, Chittorgarh Cement Plant and Nimbol Cement Plant has waste heat recovery systems, and, as of March 31, 2021, its waste heat recovery capacity is 44.7 MW, and 19.35% of the total power demand of its units is serviced by waste heat recovery systems. It is also setting up captive power plants at some of its units to further help in cost reduction and operational efficiency of its units by ensuring uninterrupted electricity supply reducing production stoppages and down time for its units.

NVCL is in the process of installing captive power plants at its grinding unit in Jojobera, Jharkhand and the Arasmeta Cement Plant in Chhattisgarh. In addition, its integrated cement plants at Chittorgarh, Sonadih and Arasmeta are equipped to handle alternate fuels in addition to fossil fuels. NVCL also routinely implement debottlenecking exercises at its plants to improve productivity. It is in the process of implementing clinker debottlenecking at its integrated cement units located at Risda, Nimbol and Sonadih. Additionally, it is undertaking capacity expansion exercises at Jojobera Cement Plant, to increase its capacity to 6.45 MT per annum, and at its Bhabua Cement Plant, to increase its capacity to 2.00 MT per annum. The Company also has the option to undertake expansion in West India by utilising its limestone reserves in Chittapur, Gulbarga in Karnataka.

Strengthen brand and expand distribution network: NVCL has an extensive brand portfolio for its key product segments. Its brands have significant market share, market reputation and brand recall, it aims to continue to undertake brand awareness and brand building measures targeted at its customers and in key geographies to increase its market share and revenues from sales of its products. Further, its distribution network provides with a Pan-India presence and the ability to target key markets for its products. NVCL is continuously evaluating additional locations within the states it currently operates in, as well as other states for expanding its sales and distribution network. Its expansion strategy is based on a calibrated and systematic evaluation of the market size, customer demand, competition and economic factors for the sale of its products in a particular location.

Growth through expanding operations and through acquisitions: NVCL has grown its business, geographical presence, manufacturing capacity and brand portfolio over time through strategic acquisitions. Through the merger of the Nimbol Cement Plant and the acquisition of NU Vista, it has further enhanced its business operations, growth and prospects. It is also well positioned to undertake both core and value-add acquisition opportunities in the future given its Pan-India presence, knowledge of local markets, proven management capabilities and deep customer relationships. Acquisition of NU Vista and merger of Nimbol Cement Plant increased NVCL's cement manufacturing capacity from 11.74 MMTPA to 22.32 MMTPA as on March 31, 2021. In addition, its acquisitions have also allowed it to expand its distribution network. The capacity addition and extension of distribution reach has resulted in higher capacity utilisation at its plants, higher EBITDA/tonne of cement and increased overall revenues and profitability. As of March 31, 2021, it has a strong balance sheet, resulting in high capital structure flexibility. As of March 31, 2021, its net debt is Rs 67,300.63 million. Further, it intends to use the proceeds from the Fresh Issue for repayment/prepayment/redemption, in full or part, of certain borrowings availed of by NVCL and general corporate purposes, which will further reduce total indebtedness.

Complete the integration of the NU Vista cement business with its business: Since the completion of the acquisition of the NU Vista cement business, NVCL has undertaken several steps to integrate the acquired business, plant operations and personnel with its existing business. It intends to continue to complete the integration of the NU Vista business with its business by implementing the following initiatives:

The Company is in the process of adopting a multiple price point strategy using its expanded product portfolio, including the "Double Bull" brands. It intends to include products at multiple price points in its product portfolio to combat the competitive pressures from brands of other manufacturers, and service customers from different demographic categories.

It has initiated implementation of cross sourcing of brands from various production facilities to ensure that the full range of brands are made available across its network, to improve the reach of premium products and ensure it service its customers in a cost-effective manner. It intends to implement combined sourcing of raw materials, goods and services to achieve benefits of economies of scale. NVCL has commenced this process across the Company and NU Vista and intends to continue to focus on additional initiatives to ensure a common procurement policy. It is in the process of business integration at various levels focused on its employees and business processes, to ensure uniformity and rationalisation of products and services.

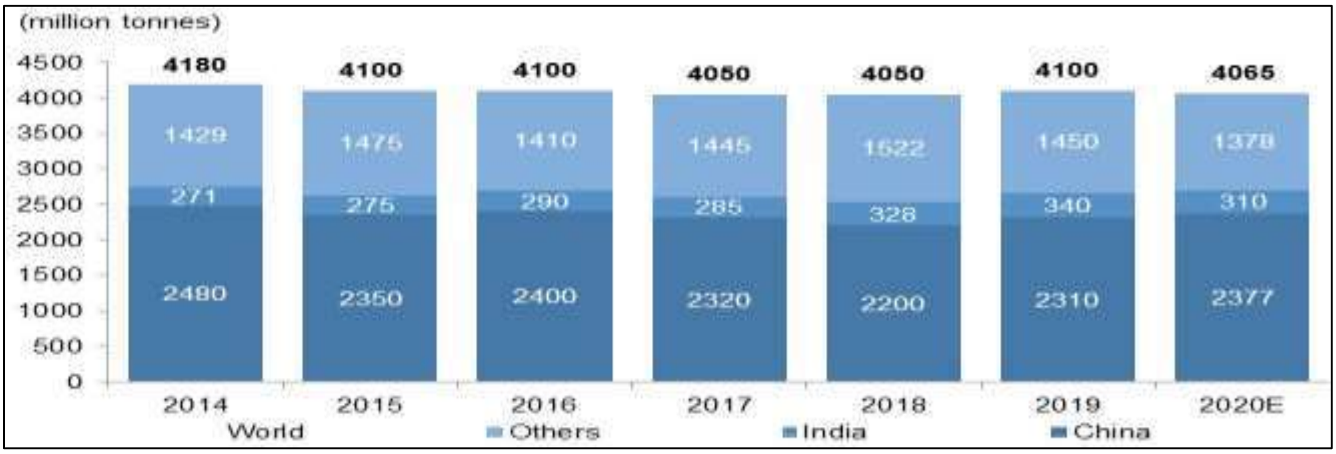
Industry

Introduction to the Indian Cement Industry

The market position of India's cement industry globally

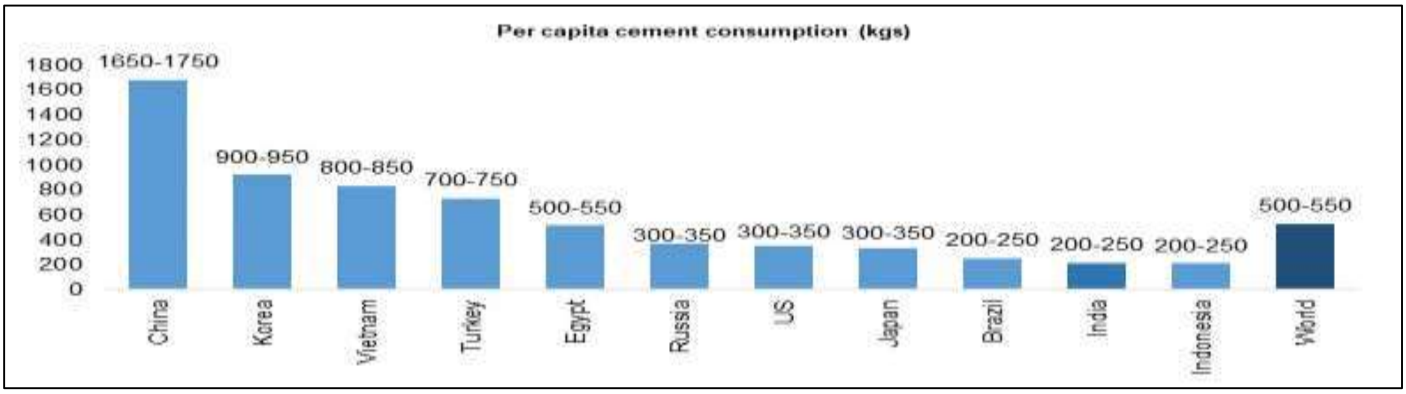
Global cement production was approximately 4.1 billion metric tons in 2020. Growth of global cement production has remained muted over the past five years.

Estimated trends in global cement production

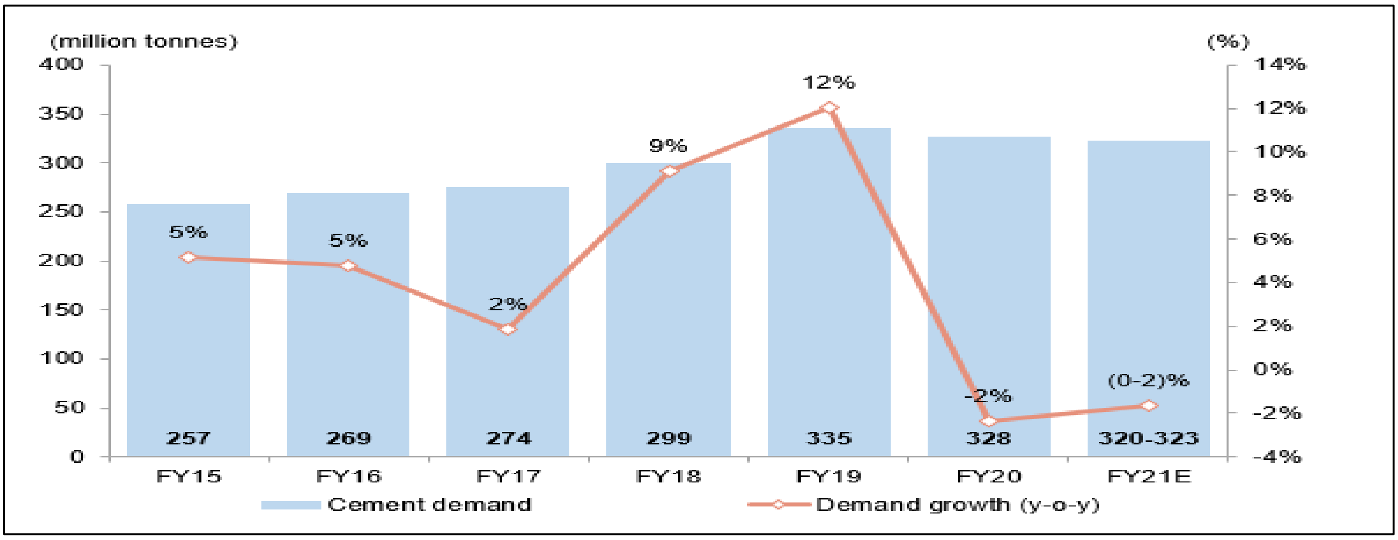


Comparison of per capita cement consumptions across the key cement-producing countries

In comparison with the other major cement producing countries, India exhibits the lowest per capita cement consumption at 200 to 250 kg, which is nearly half of world average of 500 to 550 kg. China has the highest per capita cement consumption of 1650 to 1750 kg, followed by Korea at 900 to 950 kg. However, despite a low per capita cement consumption, India is the second largest cement consumer in the world behind China.



All- India Demand Overview



Domestic cement demand grew at a moderate pace of 5% CAGR over Fiscal 2015 and Fiscal 2020, following the demand for and construction of infrastructure and affordable housing. In fact, majority of this growth was seen during Fiscal 2018 and 2019 on the back of pre-election spend. Demand for domestic cement witnessed a fall in Fiscal 2020 that continued into Fiscal 2021 due to the disruptive effects of the pandemic. 2019 to 2020: Cement demand witnessed a fall of about 2% in 2020 after witnessing two years of stellar growth (around 12% in Fiscal 2019 and around 9% in Fiscal 2018). Demand experienced negative growth of 0.5 to 1% in the first half of the year largely due to macroeconomic weakness. A slowdown in infrastructure spending on both Central and State side adversely impacted demand, along with several external factors like heavy monsoons and its delayed withdrawal, the fallout resulting from the Andhra Pradesh state government cancelling the statewide infrastructure projects, sand unavailability issues in many states (especially the southern states like AP, Telangana). Labour shortage due to the general election, water scarcity in several states like Bihar, Tamil Nadu and Odisha also impacted demand. However, the second half of the year witnessed marginal revival in demand following the release of pent-up demand and a pickup in central capex funding, which worked to limit demand decline to approximately 2% for the year.

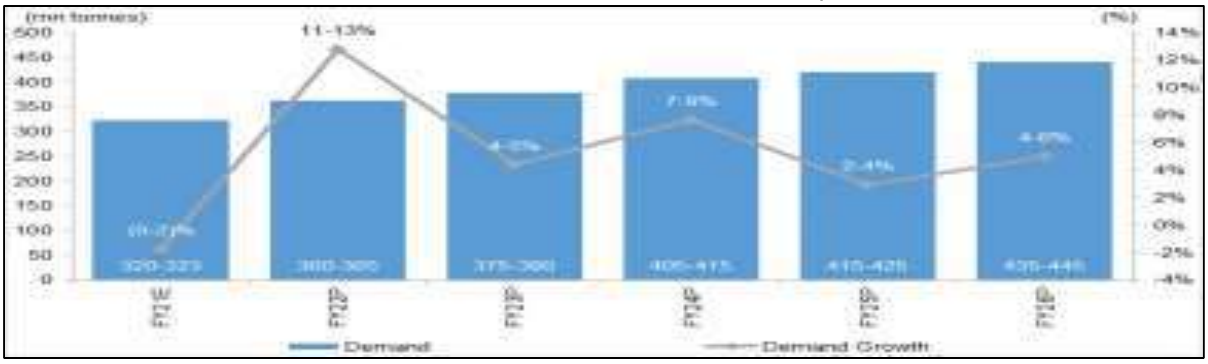
2020 to 2021E: Cement demand is expected to fall once more in Fiscal 2021 after a modest dip in Fiscal 2020 as the cement industry witnesses a tumultuous transition between the two fiscal years. Cement demand is expected to fall by 0 to 2% on-year in Fiscal 2021 due to production shutdowns, stalled construction activities and mass exodus of labour following the fear of the pandemic spread in Q1FY21. Supply chain and labour issues due to extended local lockdowns led to a demand de-growth of 30 to 31%, though pent-up and pre-monsoon construction demand in May and early June cushioned any further decline in Q1FY21. The cement industry was surprised with moderate demand growth of 3 to 4% on a year-on-year basis in the seasonally weak monsoon period of June to September. This was majorly driven by pent-up post-monsoon construction demand in September amid the return of migrant labourers and easing COVID-19 restrictions in urban settlements. Rural demand continued to shine as the only silver lining for cement demand during H1FY21 while infrastructure moved along a slower lane. Infrastructure witnessed a gradual pick-up in the seasonally strong construction period of December 2020 to January 2021, following increased government spending and recovery in urban housing leading to robust demand growth of 8-9% in Q3FY21.

Demand to be driven by affordable housing and rural housing

The share of housing sector has dropped over the past five years due to the housing sector, especially real estate, being caught in a quagmire of slow economic growth, weak demand, buyer-unaffordability and high inventories. However, overall share was maintained at 60 to 65% due to the central government's push for the "Housing for All" scheme. While the housing segment will remain the key volume contributor, infrastructure is expected to expand its contributions with rising investments by the central government in roads, railways and the irrigation sector. On the other hand, the infrastructure sector has increased its share due to a spur in infrastructure spending by the central government.

The demand outlook for India

Growth in cement demand for the next five years

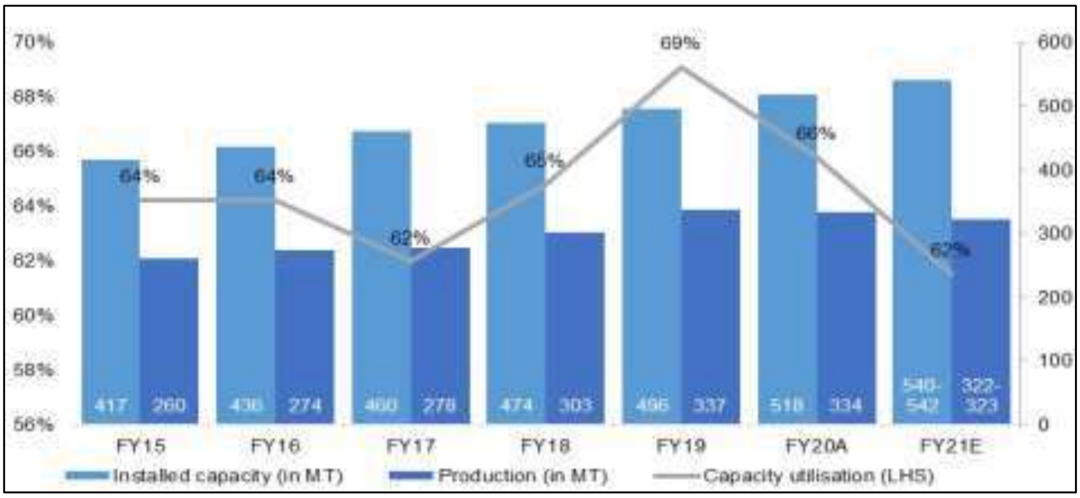


Cement demand is expected to face consecutive demand de-growth in Fiscal 2021 after a marginal dip in Fiscal 2020 as the cement industry witnesses a tumultuous transition between the two fiscal years. Cement demand is expected to fall by 0 to 2% on-year in Fiscal 2021 owing to the outbreak of the COVID-19 pandemic in India and strict lockdown measures taken by the Indian government to curb the spread of COVID-19 in the country. However, demand decline in the current year is due to the sharp drop in demand in the first quarter brought about by the total lockdown in April. After falling by 31% on-year in Q1 FY21, cement demand has recovered sharply, witnessing positive growth over Q2 and Q3 FY21. While demand witnessed a tepid growth of 3 to 4% in Q2 FY21, Q3 FY21 marked a full-fledged recovery with the industry growing by 8 to 9% on a year-on-year basis. Demand was largely driven by rural housing in the first half, whereas urban housing and the infrastructure segment aided recovery in the third quarter.

A reboot in demand after the festive season in H2FY21 was led by a continued traction in rural demand, increased government spending on infrastructure and housing segments, and ample labour availability at construction sites. Additionally, key infrastructure projects like roads, metros and irrigation and the government's drive to revive the housing segment are expected to drive potential cement demand in the near future. CRISIL Research expects cement demand to register a CAGR of 6 to 7% from Fiscal 2021 to Fiscal 2026 driven by a raft of infrastructure investments and healthy revival in housing demand, as compared to a CAGR of 4.5 to 5.5% witnessed during Fiscals 2015 to Fiscal 2020.

Player-wise capacity growth

The large and mid-sized players have used both organic and inorganic route to grow. While Ultratech cement has seen the maximum capacity additions in absolute terms, Nuvoco (consolidated) has grown the fastest in terms of percentage with the total installed capacity doubling over the last 5 years post the acquisition of Emami Cements. Other players like Shree Cements, JK Cement and JK Lakshmi cement has also seen healthy capacity growth led by organic growth as they expanded to newer regions.



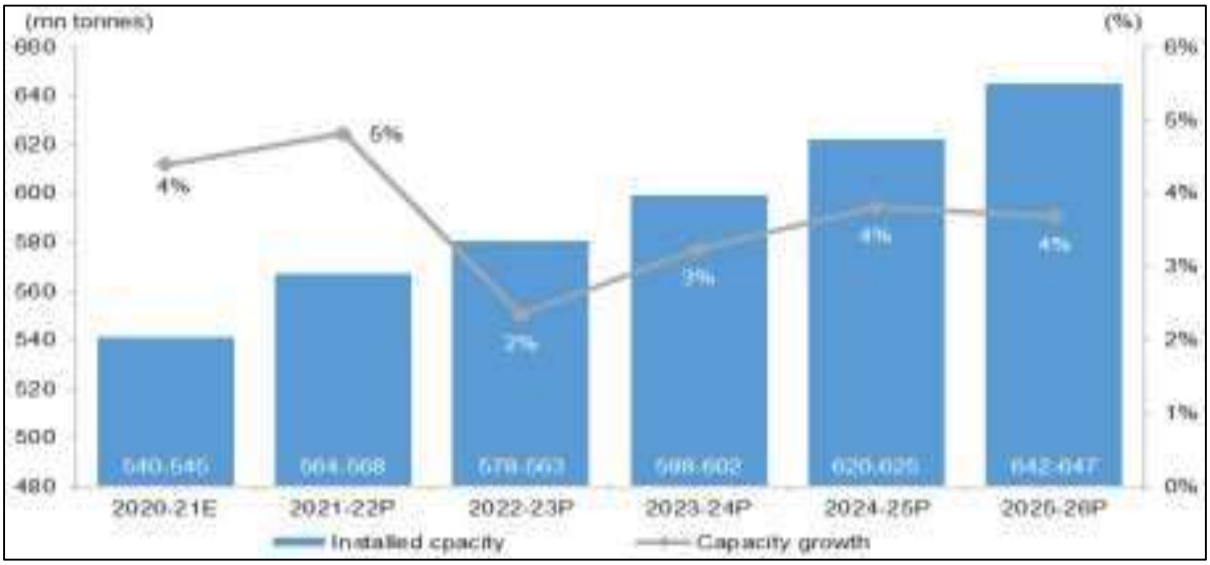
2020 to 2021E: In Fiscal 2021, amid the crisis of the COVID-19 pandemic, logistics and labour issues, along with high inventory levels acted to limit production growth in the first half of the first quarter, before a sharp increase in demand occurred. Nonetheless, due to the complete halt in production over the first two weeks of April 2020, utilization levels plunged to historic lows of 43 to 45% in the first quarter of the fiscal. Utilization levels have continued to grow since reaching pre-pandemic levels of 70 to 72% in the 3rd quarter of the fiscal year and are expected to grow further in the final quarter in line with growing volumes. However, on a year-on-year basis, utilization levels are expected to fall by around 300bps to 62 or 63% in Fiscal 2021.

Player wise utilisation rates: The mid and large sized players operate at relatively higher utilisation rates as compared to regional and smaller players because of better brand pull as well as stronger distribution network. Among the larger players Nuvoco Vistas Corp Limited, Birla Corp and ACC Limited (Lafarge Holcim group) have very high utilisation level. These players have high utilisation levels across regions. In fact Birla Corporation and Nuvoco Vistas Corp Limited were the only large/mid player to operate at a healthy utilisation level of 90% or above in fiscal 2020, with utilisation levels remaining high for these two players in plants across all regions. On the other hand recent expansion spree by Shree Cement, JK Cement and Ramco Cement has led to lower than industry utilisation levels. However, these players are expected to ramp up production from the newly installed units leading to pick up in utilisation levels in medium term.

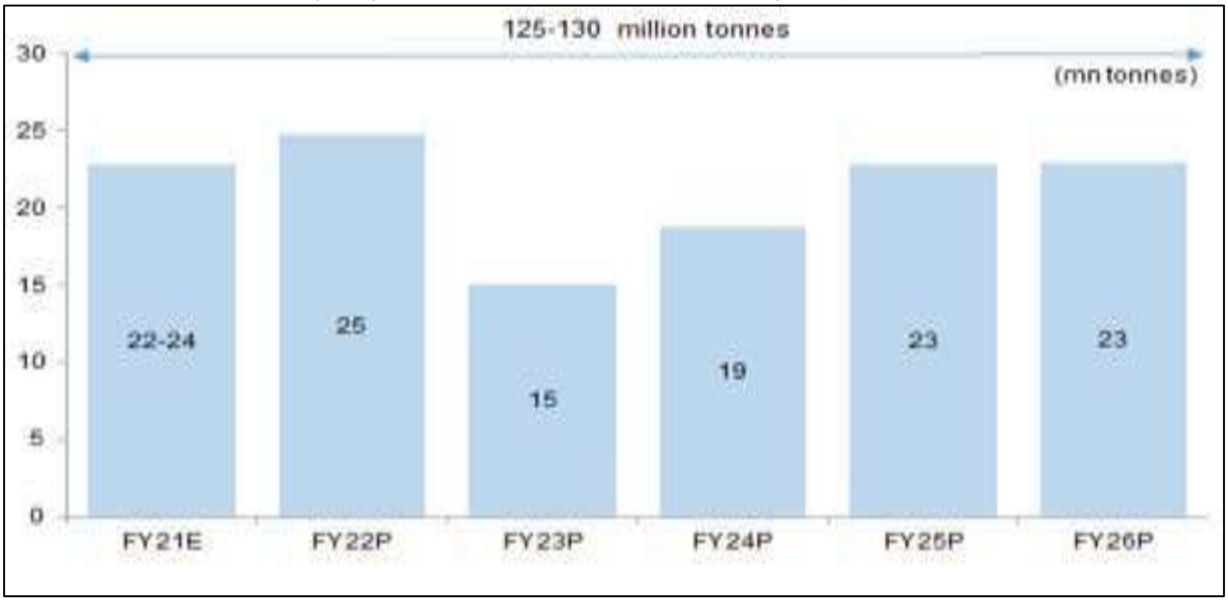
Capacity basis Market shares of top industry players Share of top 5 players in the industry has grown to ~50.5% led by consolidation and higher organic growth by large players. Driven by foray into value-added products such as RMC and white cement, the industry has diversified a little. Except for a few, cement players don’t have any meaningful share of revenues from segments other than cement. Given the sharp variation in gearing ratios and profitability, financial flexibility varies sharply with most large players enjoying moderate to strong financial flexibility.

All-India Supply Outlook

Installed capacity outlook and capacity growth for next five years (2021 to 2026)



Total capacity additions estimated over next five years (2021 to 2026)



Production and capacity utilization outlook for next five years (2021 to 2026)

Industry to potentially witness around 125-135 MMTPA capacity addition in the next five years. The cement industry is estimated to have added ~24 million tonnes of grinding capacity in 2020-21 over 22 MMTPA of capacities commissioned in 2019-20. As of 2020-21, CRISIL Research estimates overall installed capacity of 540- 542 MMTPA (adjusted for period of commissioning this would be close to 525 MMTPA on an effective basis). The capacity additions is expected to remain robust with nearly 125-130 MT capacity expected to be added in over span of FY21-26. The total installed capacity is estimated to be around ~645 MMTPA by FY26 with capacity utilization of 70-72%.

Regional Demand: Overview and Outlook

Overview of regional demand: In the last five years, the central (Uttar Pradesh and Madhya Pradesh) and eastern (Odisha, Bihar and West Bengal) regions have exhibited strong demand led by a surge in infrastructure construction and rural housing. Over the past five years, cement demand grew at a moderate CAGR of approximately 5%, driven by infrastructure development as well as rural housing construction in the eastern region. However, the southern region suffered sluggish growth in demand because of continued capacity additions in the region, the stalling of construction activities in Amravati and Polavaram in AP-Telangana and sand unavailability in the region post-new sand mining laws.

In the long run, CRISIL Research expects cement demand to increase at a faster pace of about 6.5% as compared against a moderate pace of about 5% CAGR in the past five years. In terms of regional dynamics, while the eastern region is expected to exhibit robust growth followed by moderate growth in the central region, growth rates in the southern and western regions are expected to pick up pace over the next 5 years. Demand in the southern region will remain a key monitorable, as pick-up in the state capex in AP-Telangana as well as release of funds by central government for Polavaram projects will lead to faster demand revival on low base. This interplay of demand dynamics would likely result in the share of the eastern region rising to 27 to 29% in Fiscal 2026 from about 25% in Fiscal 2020.

Eastern and Central regions to drive demand growth in the longer run

Per the past decade, the Eastern and Central regions will continue to drive cement demand in India in the medium term on the back of continued government development of infrastructure and housing in these regions, along with a low base of development. Per-capita income and per capita cement consumption of the eastern and central regions are well below Pan-India numbers and thus provides huge scope for potential growth. North, West and South India, which are home to the more industrialized states in India, have seen relatively lower demand growth in the past and will continue to lag behind the other two regions in the future as well. Amongst the three relatively well-developed regions of North, West and South India, demand growth in West and South India is optical in nature due to the low base of 2020 to 2021, where both regions witnessed a sharper decline in demand.

Regional Supply: Overview and Outlook

Overview of dynamics in regional supply

From 2015 to 2020, the northern, eastern and southern regions collectively made up 70% of overall capacity additions, with East India accounting for the largest addition in capacity over the years. The pace of capacity addition has slowed down significantly in the southern region as the operating rates in the region are the lowest in the country. The Eastern region has seen the highest capacity additions in recent years led by rapid expansion by Nu Vista Limited (formerly Emami cement; now a wholly owned subsidiary of Nuvoco) as well as Shree cement which helped them gain market share in a fast-growing market. In the next 5 years from Fiscal 2021 to Fiscal 2026, the eastern, central and western regions are expected to drive further capacity additions, with the northern and southern regions lagging behind.

The cement industry witnessed a robust addition in capacity of 22 million tons in Fiscal 2020. Capacity addition for the cement industry is estimated to hover at around 22 to 24 million tons in Fiscal 2021 due to pandemic disruptions as capital expenditure plans are delayed amid looming uncertainties. The cement industry will likely witness a capacity addition of 100 to 110 million tons in the next five years as compared to 102 million tons in the last five years.

Capacity, growth and utilization in Northern Region: With the revocation of the MFN status of Pakistan, the capacity utilization of the northern states grew in FY19- FY20. Prior to the revocation of Pakistan's MFN status, nearly 1.2 to 1.3 MT of cement had been imported from Pakistan every year. This has been substituted by local cement production in the northern region. While cement demand saw a dip in Fiscal 2021 due to COVID-19 shutdowns, it is likely that utilization will gradually increase with capacity additions and a revival of higher demand due to infrastructure growth.

Pricing: Overview and Outlook

FY21: Prices saw a sharp rise in April 2020 due to supply shortage and higher logistics costs amid the Pan-India lockdown. Prices increased further in May 2020 on the back of surge in demand resulting from the slower resumption of supply. There has been a fall in prices since then, from a high of Rs. 378/ bag in May 2020 to Rs. 355/bag in Jan 2021, due to the increase in supply arising from the resumption of production by mid- and small sized producers. Additionally, falling input prices have also provided ample bandwidth for price reduction without any major impact on margins. Despite recent moderation in prices, prices are expected to rise marginally by 2 to 3% on a year-on-year basis to Rs. 364-366/bag in Fiscal 2021 from Rs. 356/bag in Fiscal 2020. FY22P: Cement prices are expected to rise in Fiscal 2022 due to rising input costs and increases in demand. A steep rise in pet coke, coal and diesel prices has led to a sharp increase in power, fuel and freight costs which account for close to 60% of the total production costs. Producers are likely to pass on the rise in cost pressures amid robust demand growth on low base, causing prices to increase.

East: Prices falter as players compete for market share amid swiftly reviving rural demand

FY20: Steep price hikes to the tune of ~13% in the first quarter failed to hold in the region as weak demand amid capacity additions drove prices lower. Sand shortage and flooding in the region led to delay in demand revival in the second quarter leading to steep fall in prices. Prices moderated further in the second half of the fiscal leading to a modest growth of ~3% y-o-y.

FY21: Cement prices in the eastern region are expected to witness a decline of 3-4% in fiscal 2021 as healthy demand growth on back of rural housing and government infrastructure projects will lead to players competing for higher market share thereby reducing prices. Prices to also remain muted due to robust capacity additions in the region. Also east being an outbound region for south based players is going to face oversupply scenario. Thus, overall prices in the region are expected to plummet in fiscal 2021.

FY22P: Cement prices in the eastern region are expected to rebound after a sharp fall in fiscal 2021 on the back of robust demand growth. However, any major uptick will be halted by a strong pipeline of capacity additions in the region. Further, low exit prices in fiscal 2021 will warrant steeper hikes in the region which will be difficult with a spree of new capacities coming in. Thus cement prices are expected to rise by a meagre 0-2% in fiscal 2022 on year.

North: Continued consolidation in the region to lead to 3rd year of continuous price rise

FY20: Cement prices in the region increased by 17-19% in 2019-20 on the back of improving utilization levels. With no new capacity addition in FY19, and only ~3 MMTPA added in fiscal 20, utilization levels improved significantly which supported price rise. Further, imposition of import duty of 200% on cement imports from Pakistan restricted cement imports in Punjab and Haryana leading to spike in domestic production and capacity utilisation.

FY21: Prices are expected to elevate by 3-4% y-o-y basis in fiscal 21 despite high base as demand is on recovery trajectory post easing of pandemic restriction and resumption of government spending on infra projects. Players in the region have taken price hikes in H1FY21 in order to combat low profitability and loss in volume due to stalled construction activities. However, with receding monsoon, return of migrant labourers to construction sites post festive season and easing of supply chain restriction demand to reboot followed by elevated prices in the region. With fewer players in the region and strong volume recovery from non-trade segment, prices to inch up in current fiscal

FY22P: Cement prices in the northern region are expected to rise on the back of steady demand growth in the region amid limited capacity additions. Capacity utilization in the regions is expected to reach 77-79% in fiscal 2022, way above Pan-India average of 65-67% which will drive uptick in prices.

Central: Prices to remain flattish on back of steady demand revival

FY20: Cement prices grew moderately by ~8% as new capacities getting commissioned in the region offset demand pickup in second half of the fiscal. However with few players in the region and growing demand on back of rural housing led to elevated prices during the fiscal. Thus, in fiscal 2020 cement prices improved to ~Rs 364 / bag vis-a-vis ~Rs 338/bag in the previous fiscal.

FY21: Prices are expected to remain flattish with 0-2% growth in the current fiscal as central region is a major outbound region for the players and as demand revives on back of rural demand, players try to gain larger pie of market share and limit price growth. This coupled with weather disruptions of monsoon led to declining prices in Q2FY21 which gains momentum in Q3FY21 on back of rapid demand revival. Prices are expected to gain strength further in the fiscal with increased government spending on infrastructure and rural economy leading to healthy demand revival.

FY22P: Cement prices in the central region is expected to remain steady with pickup in demand being offset by rise in supply in the central region as well as east which is a key outbound region. Thus, prices are expected to rise marginal by 0-2% to Rs 364-368/ bag in fiscal 2022.

The RMX market in India

RMX is still in a nascent stage in India, as a relatively small percentage of cement production is converted into RMX, as compared with more than 50% in the major developed countries. The RMX market in India is extremely unorganized and fragmented. However, large cities constitute around 65 to 70% of capacity as of March 2018 to 2019. The RMX industry accounts for around 8% of the pan-India cement demand. The western and southern regions account for a major chunk of the demand for RMX. This high proportion of RMX demand can be associated with the growing awareness of usage of RMX in construction activities, greater emphasis on timely completion of projects and increased focus on safety and quality norms in construction. The RMX industry is facing increased liquidity issues with the entry of newer players. Additionally, given the fragmentation of the RMX market, the entry of players from the unorganized segment has put pressure on pricing.

Some of the major cement manufacturers in India, viz. Ultratech, Nuvoco Vistas, ACC, India Cements, Prism Cement and Ramco Cements, have forayed into the RMX business. The industry has several other non-cement players like Alcon, Concrete India, Navayuga Concrete, Godrej RMX and Best Readymix concretes. Ultratech cement continues to be the largest player in the RMX with ACC, Nuvoco Vistas and Prism Johnson constantly competing to remain in the top three. Despite relatively higher competition and lower margins, cement companies like ACC, Ultratech and Nuvoco have been taking steps to strengthen their positions in the RMX industry. The companies have been replacing RMX plants at construction sites and introducing innovative products in the RMX space like Bucketcrete by ACC or Xlite Structural by Nuvoco Vistas to ensure higher uptake. Innovative products in the RMX space usually fetch higher prices, leading to an improvement in margins.

Outlook on the Indian RMX Industry

The RMX industry in India has seen tepid growth over the past two to three decades. Initial controls on cement pricing and distribution did not benefit the RMX business owing to the shortage of cement. Besides having easy access to cement, RMX also requires technical competence to manufacture the concrete to ensure proper mixing in the desired proportions. Presently, the usage of RMX is restricted because of its higher price vis-a-vis SMC, and because there are inadequate facilities at construction sites to utilize RMX effectively. In addition, in India, labour is less expensive as compared to developed countries. As a result, most medium- and small-scale builders opt for the conventional method of SMC. Logistics proves to be another hurdle for RMX, as it is difficult for RMX trucks to manoeuvre through small and narrow roads where the building is being raised. These huge agitator trucks occupy a large part of the road, causing traffic bottlenecks. Apart from this, the tax levied on RMX through the Central Excise Tariff has also proven to be an impediment. The levy of excise tax on RMX is also dependent on the place where it is manufactured due to exemption notification. Further, slowdowns in the real estate industry over the last five to seven years has led to low cement demand. Real estate sales in the top 10 cities in India have consistently clocked negative growth over the last few years. However, fall in inventory levels, lowering of capital values and low interest rates have led to a marginal pickup in demand, albeit on a low base. Construction on the other hand has seen steady growth post-implementation of RERA. While 2020 to 2021 brought construction cement demand to a grinding halt, it is expected real estate construction to pick up sharply going forward.

In the longer run, RMX demand is expected to increase as real estate demand revives and there is continued infrastructure spending by the central government. There are several key drivers for RMX in the medium term. Firstly, robust infrastructure investments will drive demand from the infrastructure segment which accounts for 35 to 40% of the total RMX consumption in India. This rise in demand will come from the expansion of metro rail networks across various Tier 2 cities like Indore, Bhopal, Patna, Nagpur and Jaipur and central government projects like Pradhan Mantri Awas Yojana (Urban and Grameen), Smart city projects and Sagarmala. Airport construction is also expected to pick up pace due to the central government's UDAN scheme. Secondly, a revival in residential and commercial real estate after a prolonged lull and great potential for continued urbanization (which still remains slow at 30-35% in India, well below that of developed nations) will lead to increase in RMX demand.

Key Concerns:

- Business, financial condition and results of operations have been and may continue to be materially adversely affected by the COVID-19 pandemic.

- Business is dependent upon NVCL's ability to mine/ procure sufficient limestone for its operations, and inability to do so on reasonable terms, or at all, could have an adverse impact on the business, financial condition and results of operations.

- The recently enacted Mines and Minerals (Development and Regulation) Amendment Act, 2021 ("Amendment Act") may result in lapsing of letters of intent for the grant of mining leases under Section 10A of the MMDR Act. In addition, the Amendment Act may also impact the continuity of certain non-operating mining leases.

- NVCL is dependent upon the continued availability of coal, water, labour and raw materials used in the production of cement, the costs and supply of which can be subject to significant variation due to factors outside its control.

- Under-utilisation of manufacturing capacities and an inability to effectively utilise expanded manufacturing capacities could have an adverse effect on the business, future prospects and future financial performance.

- An inability to effectively manage growth and expansion may have a material adverse effect on NVCL's business prospects and future financial performance.

- Inability to effectively integrate operations with acquisitions and achieve operational efficiency may not yield timely or effective results, which may affect NVCL' financial condition and results of operations.

- An inability to comply with repayment and other covenants in the financing agreements could adversely affect the business, financial condition, cash flows and credit rating.

- Proposed capacity expansion plans relating to integrated and grinding units are subject to the risk of unanticipated delays in implementation and cost overruns.

- Relies on the demand for cement from various sectors such as infrastructure, housing and commercial real estate. Any downturn in the major cement consuming sectors or the building industry could have an adverse impact on the business, growth and results of operations.

- Operates in a highly competitive business environment and any failure to effectively compete could have a material adverse effect on the Company.

- Most of NVCL's Cement Plants and mines are located in the eastern and northern region of India and any adverse development affecting these regions, along with its potential inability to operate and grow its business in these regions may adversely affect the business, financial condition, results of operations, cash flows and future business prospects.

- Manufacturing activities and mining operations involve dealing with hazardous substances and are subject to risks of operational hazards, which can cause injury to people or property in certain circumstances, the occurrence of which may hamper the Company' reputation, business, financial condition and results of operations.

- Modern building materials business sources finished products from third parties, and the quality of modern building materials may be impacted by the quality of the products supplied by third parties.

- A majority of total cement sales are to the trade segment, customers in the trade segment are typically individual home owners who are particularly exposed to local economic slowdowns and other factors which may result in a reduction of cement sales, which would have a material adverse effect on the business, results of operations and financial condition.

- NVCL may be adversely affected by increases in, or structural changes to, the royalty's payable by it or onerous conditions under mining lease agreement or central or state government actions.

- Non-compliance with and changes in any laws relating to environment, health and sustainability, including health, safety, labour, environmental or forest conservation laws and other similar regulations, may adversely affect the business, results of operations and financial condition or otherwise lead to criminal prosecutions.

- NVCL is entitled to certain incentives and subsidies pursuant to several state government schemes and any change in these incentives and subsidies applicable to it or a delay in disbursement of benefits under such schemes may affect the financial condition, profitability and cash flow.

- Prolonged stoppage of operations, including due to breakdown of machinery at integrated manufacturing facilities, blending units or grinding units, adverse weather conditions or industrial accidents may have a material adverse effect on the business, financial condition and results of operations

- Depends on a select number of suppliers for the supply of raw materials and coal and pet coke. The loss of one or more such suppliers could adversely affect the business, results of operations, financial condition and cash flows.

- NVCL is required to obtain, renew or maintain statutory and regulatory permits, licenses and approvals to operate business and its Cement Plants, RMX Plants and mines, and any delay or inability in obtaining, renewing or maintaining or failing to comply with the terms and conditions of such permits, licenses and approvals could result in an adverse effect on its results of operations.

- An inability to protect, strengthen and enhance existing brands, and successfully launch and market new brands, could adversely affect the business prospects and financial performance.
- Business is subject to seasonal variations and cyclicality that could result in fluctuations in results of operations.
- Business and activities are regulated by the Competition Act, 2002, which may restrain its flexibility in pricing its products.
- The cement industry is capital intensive, and NVCL may need to seek additional financing to support growth strategies. Any failure to raise additional financing could have an adverse effect on the business, results of operations, financial condition and cash flows.
- NVCL will continue to depend on its distribution network for the sale and distribution of its products. Any disruption in distribution network will adversely affect the business and results of operations.
- Disruptions in transportation of raw materials and finished products could affect the business.
- If NVCL experiences insufficient or negative cash flows to meet required payments on its debt and working capital requirements, its business and results of operations could be adversely affected.
- Any failure of information technology systems could adversely affect the business and operations.
- NVCL has incurred net loss in the past, and it may not be able to achieve or maintain profitability in the future.
- Business is dependent on adequate and uninterrupted availability of electrical power and water. It may also face certain risks with regard to the operation of its captive power plants. Any shortages or any prolonged interruption of power and water or increase in the cost of power, could adversely affect the business, result of operations and financial condition.
- Inability to collect receivables and default in payment from dealers or customers could result in reduced profits and affect the cash flows.
- The introduction of substitutes for cement in the markets in which NVCL operates and the development of new construction techniques could have an adverse effect on the business, results of operations and financial condition.
- NVCL is subject to stringent labour laws or other industry standards.
- NVCL faces foreign exchange risks that could adversely affect its results of operations and cash flows.
- Any failure or delay in the acquisition or leasing of land or an inability to acquire land or renew leases or licenses or continue licenses with respect to such land at acceptable costs or on commercially reasonable terms or a situation where landowners create any encumbrances over land NVCL is using, may adversely affect its business, results of operations and financial condition.
- Changes in technology may affect the business by making its Cement Plants, RMX Plants and mines or equipment less competitive.
- The success and wide acceptability of NVCL's products is largely dependent upon certain quality accreditations which are valid for a limited time period and to maintain an effective quality control system.
- Inability to accurately forecast demand or price for its products and manage its inventory may adversely affect the business, results of operations and financial condition.
- NVCL may be subject to product liability or recall claims that could harm the business, financial condition and results of operations.
- Dependent on a number of key personnel and other senior personnel, and the loss of or its inability to attract or retain such persons could adversely affect the business, results of operations and financial condition.
- A slowdown in economic growth in India could cause the business to suffer.
- Inflation in India could have an adverse effect on the profitability and if significant, on the financial condition.
- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of Equity Shares, independent of its operating results.

Profit & Loss

Particulars (Rs in million)	FY21	FY20	FY19
Revenue from Operations	74888.4	67932.4	70521.3
Other Income	338.5	367.1	537.5
Total Income	**75226.9**	**68299.4**	**71058.9**
Total Expenditure	**60283.4**	**54961.0**	**61344.5**
Cost of materials consumed	10323.0	12738.2	13974.0
Purchase of stock in trade	476.0	175.6	125.5
Changes in inventories of finished goods, work- in-progress and stock-in-trade	1268.7	-613.6	347.2
Power and fuel	13563.4	12256.3	13741.3
Freight and forwarding charges	20294.2	17761.4	19832.1
Employee benefits expense	4820.4	4046.2	3811.3
Other expenses	9537.8	8597.0	9513.1
PBIDT	**14943.5**	**13338.5**	**9714.4**
Interest	6640.3	4192.2	4569.3
PBDT	**8303.2**	**9146.3**	**5145.0**
Depreciation and amortization	7937.9	5278.8	4979.0
PBT	**365.4**	**3867.5**	**166.0**
Tax (incl. DT & FBT)	**624.6**	**1375.0**	**430.9**
Current tax	464.7	896.2	642.1
Deferred Tax	273.0	476.5	-11.4
Tax for earlier years	-113.1	2.3	-199.8
PAT	**-259.2**	**2492.6**	**-264.9**
EPS (Rs.)	-0.82	10.28	-1.09
Face Value	10	10	10
OPM (%)	19.5	19.1	13.0
PATM (%)	-0.3	3.7	-0.4

(Source: RHP)

Balance Sheet

Particulars (Rs in million) As at	FY21	FY20	FY19
Assets			
Non-current assets			
Property, plant and equipment	93241.7	62207.8	60645.1
Goodwill	32784.7	24438.6	24438.6
Capital work-in-progress (net of provision)	12358.5	6470.1	6049.1
Investment property	5.5	11.9	12.7
Right of use assets	3293.4	1016.9	1090.6
Other intangible assets	21090.4	12026.3	12762.1
Intangible assets under development	43.7	0.0	0.0
Financial assets			
- Investments	0.5	0.5	0.5
- Loans	15.1	1.7	2.0
- Other non-current financial assets	7874.7	5790.9	5805.6
Income tax assets (net)	1332.2	1339.3	1130.3
Other non-current assets	1912.8	1070.6	634.3
Total non-current assets	**173953.2**	**114374.6**	**112571.0**
Current assets			
Inventories	7123.7	6030.2	5846.8
Financial assets			
- Investments	3841.8	0.0	4556.0
- Loan	26.6	22.6	14.8
- Trade receivables	4538.9	5110.4	4998.6
- Cash and cash equivalents	4931.1	2538.5	982.8
- Bank balances other than Cash and cash equivalents	346.6	2570.0	264.3
- Other current financial assets	2101.5	2578.4	1837.7
Income tax asset (net)	15.6	13.9	125.0

Other current assets	2196.8	1204.6	1420.0
Total current assets	**25122.5**	**20068.6**	**20046.1**
Total assets	**199075.7**	**134443.2**	**132617.0**
Equity and Liabilities			
Equity			
Equity Share Capital	3150.9	2423.6	2000.0
Other equity	70086.3	50368.9	47882.7
Total equity	**73237.2**	**52792.6**	**49882.7**
Liabilities			
Non-current liabilities			
Financial liabilities			
- Borrowings	55612.3	29312.5	33183.3
- Other non-current financial liabilities	625.3	527.7	527.7
- Lease liabilities	890.8	336.4	438.2
Provisions	814.0	703.1	610.0
Other non-current liabilities	21.4	0.0	0.0
Deferred tax liabilities	18809.5	14418.5	13930.5
Total non-current liabilities	**76773.4**	**45298.2**	**48689.6**
Current liabilities			
Financial liabilities			
- Borrowings	1977.8	6613.1	0.0
- Trade payables			
Due to micro and small enterprises	568.1	120.1	53.4
Due to creditors other than micro and small enterprises	8507.6	7739.5	7594.0
Other current financial liabilities	27354.3	15166.7	18841.2
Lease liabilities	605.7	158.8	133.0
Provisions	4311.6	3215.8	3158.3
Other current liabilities	5740.1	3338.4	4265.0
Total current liabilities	**49065.1**	**36352.4**	**34044.8**
Total equity and liabilities	**199075.7**	**134443.2**	**132617.0**

(Source: RHP)

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